

**REPORT OF THE AUDIT OF THE
CUMBERLAND COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CUMBERLAND COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Cumberland County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$7,884 from the prior year, resulting in excess fees of \$11,869 as of December 31, 2010. Revenues increased by \$8,519 from the prior year and expenditures increased by \$16,403.

Report Comments:

- 2010-01 The County Clerk Should Require Approval For All Employee Timesheets
- 2010-02 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements
And The Reconciliation Process

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John A. Phelps, Cumberland County Judge/Executive
The Honorable Kim King, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Cumberland County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2010 on our consideration of the Cumberland County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable John A. Phelps, Cumberland County Judge/Executive
The Honorable Kim King, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The County Clerk Should Require Approval For All Employee Timesheets
- 2010-02 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements
And The Reconciliation Process

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Cumberland County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 21, 2010

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

House Bill 537 - Revenue Supplement		\$	61,845
State Fees For Services			4,059
Fiscal Court			7,036
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	246,189	
Usage Tax		331,620	
Tangible Personal Property Tax		467,811	
Other-			
Fish and Game Licenses		5,152	
Marriage Licenses		2,059	
Deed Transfer Tax		13,099	
Delinquent Tax		79,671	1,145,601
			<hr/>
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		8,066	
Real Estate Mortgages		5,014	
Chattel Mortgages and Financing Statements		22,462	
Deeds of Release		3,665	
Lien Release		4,984	
Powers of Attorney		684	
All Other Recordings		9,503	
Charges for Other Services-			
Candidate Filing Fees		1,000	
Copywork		5,490	60,868
			<hr/>
Other:			
Tax Sale Deposit		1,005	
Overpayments		834	
Miscellaneous		1,090	2,929
			<hr/>
Interest Earned			174
			<hr/>
Total Revenues			1,282,512

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 175,024

Usage Tax 320,430

Tangible Personal Property Tax 171,518

Licenses, Taxes, and Fees-

Fish and Game Licenses 5,057

Delinquent Tax 10,077

Legal Process Tax 7,517

Affordable Housing Trust 14,526 \$ 704,149

Payments to Fiscal Court:

Tangible Personal Property Tax 31,497

Delinquent Tax 4,254

Deed Transfer Tax 12,270

Tax Bill Preparation 1,677 49,698

Payments to Other Districts:

Tangible Personal Property Tax 246,178

Delinquent Tax 41,518 287,696

Payments to Sheriff

4,601

Payments to County Attorney

11,272

Operating Expenditures:

Personnel Services-

Deputies' Salaries 75,950

Employee Benefits-

Employer's Share Social Security 5,537

Employer's Share Retirement 11,281

Employer's Paid Health Insurance 15,140

Contracted Services-

Advertising 379

Software Maintenance and Support 2,592

Printing and Binding 3,000

Materials and Supplies-

Office Supplies 12,841

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges-

Conventions and Travel	\$	708	
Dues		480	
Postage		1,300	
Appeals Board		300	
Notary Bonds		30	
Utilities		1,543	
Miscellaneous		775	
Refunds		3,509	
			\$ 135,365

Total Expenditures		\$ 1,192,781
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Net Revenues		89,731
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Less: Statutory Maximum		70,668
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Excess Fees		19,063
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Less: Expense Allowance	3,600	
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Training Incentive Benefit	3,624	7,224
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Excess Fees Due County for 2010		11,839
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Payment to Fiscal Court - March 15, 2011		11,839
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Balance Due Fiscal Court at Completion of Audit		\$ 0
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The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Cumberland County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Cumberland County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Libraries and Archives Grant

The Cumberland County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$11,492 on March 3, 2010. Interest in the amount of \$22 was received during the year and no funds were expended. The unexpended grant balance was \$11,514 as of December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John A. Phelps, Cumberland County Judge/Executive
The Honorable Kim King, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Cumberland County Clerk for the year ended December 31, 2010, and have issued our report thereon dated June 21, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-02 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2010-01 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Cumberland County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Cumberland County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 21, 2010

COMMENTS AND RECOMMENDATIONS

CUMBERLAND COUNTY
KIM KING, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2010-01 The County Clerk Should Require Approval For All Employee Timesheets

During our review of payroll timesheets we noted the employees signed their monthly timesheets indicating they agreed with the recorded time. However, there was no evidence of a supervisory review by the County Clerk or an immediate supervisor. The County Clerk or an immediate supervisor should have reviewed and approved timesheets evidenced by a signature or initial.

County Clerk's Response: No Response.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-02 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements And The Reconciliation Process

A lack of segregation of duties exists over the receipt and disbursement functions of the County Clerk's office because a limited number of employees are available to properly segregate these job duties. Segregation of duties over disbursements and the reconciliation process or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

The County Clerk prepares and signs the majority of all disbursements and posts all disbursements to the disbursement ledger. All deputies are authorized to sign checks. Dual signatures are only required in the County Clerk's absence. The County Clerk also prepares all quarterly financial reports, legal process reports, deed transfer reports, and delinquent tax reports. Also, the County Clerk prepares the monthly bank reconciliation.

In an effort to strengthen internal controls, we recommend the County Clerk delegate disbursement and monthly reconciliation duties to other employees within the office. Once these duties are delegated, the County Clerk should exercise the following compensating controls to offset the lack of segregation of duties. The County Clerk could examine checks prepared by another employee and compare them to invoices or monthly reports to taxing districts. In addition, she can review the bank reconciliation that is prepared by another employee and compare it to the balance in the checkbook. Any differences should be reconciled. When checks are prepared, the deputy clerk and the County Clerk should review the documentation that supports the check and both should sign them. The County Clerk can document this process by initialing invoices, monthly reports, bank reconciliations, disbursements ledger, and the balance in the checkbook.

County Clerk's Response: No Response.

